

## Message Text

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ACTION EA-12

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C O N F I D E N T I A L SEOUL 5834

E.O. 11652: GDS  
TAGS: ECON  
SUBJECT: GROWING INFLATION UPSETS THE ROK

SUMMARY: THOUGH KOREA HAS ALWAYS HAD A HIGH RATE OF INFLATION, IT HAS BEEN ON A STRONG UPTREND DURING THE LAST TEN MONTHS. CONSIDERABLE PUBLIC DISCONTENT IS NOW BEING VOICED, WHILE ROKG POLICY REMAINS UNCHANGED. SOME COMPLAINTS ARE NOT LEGITIMATE, SINCE WAGES IN MOST INDUSTRIES MORE THAN OFFSET PRICE INCREASES. OTHER GROUPS, HOWEVER, ARE HURT, THREATENING KOREA'S SOCIAL COHESION. THE INFLATION IS EXPECTED TO CONTINUE AT LEAST THROUGH THE END OF THE YEAR. IT WILL UNDOUBTEDLY BECOME A GROWING POLITICAL ISSUE, AND MAY COST SOME PROMINENT OFFICIALS THEIR JOBS. END SUMMARY.

2. SEPTELS HAVE REPORTED THAT RISING INFLATION AGAIN THREATENS TO TARNISH KOREAN ECONOMIC PROSPERITY. ALTHOUGH KOREA HAS TRADITIONALLY HAD A HIGH RATE (THE RATE SINCE 1961 HAS AVERAGED ABOUT 14 PC FOR BOTH THE CONSUMER AND THE WHOLESALE PRICE INDICES), THE ROKG WAS ABLE TO BRING IT DOWN AFTER THE SHARP INCREASES IN 1974 AND 1975, FOLLOWING THE OIL SHOCK, BY CONTRACTING MONEY GROWTH AND INSTITUTING SOME PRICE CONTROLS. SINCE LAST SUMMER, HOWEVER, WHEN IT WAS CLEAR THAT THE MONEY SUPPLY HAD BEEN ALLOWED TO GET OUT  
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OF HAND (UP NEARLY 50 PC BY THE FOURTH QUARTER OF '77), THE ROKG HAS REALIZED THAT IT MUST TAKE STERN MEASURES, BUT AT THE SAME TIME HAS BEEN UNABLE TO AGREE ON WHICH WERE NECESSARY OR BEST.

2. RUMBLINGS OF DISCONTENT AT RISING PRICES HAVE RECENTLY MULTIPLIED. EMBASSY CONTACTS IN ALL WALKS OF LIFE HAVE

EXPRESSED SERIOUS CONCERN. AT TIMES IT HAS BECOME SO HIGHLY EMOTIONAL AS TO BORDER ON THE PARANOID. THUS, WHILE IT IS TRUE THAT REAL GROWTH HAS CONTINUED AT A HIGH RATE, DESPITE OR IN PART BECAUSE OF THE INFLATION, SOME GROUPS FIND THEMSELVES RELATIVELY DISADVANTAGED AND SOME, ABSOLUTELY. KOREANS GENERALLY VIEW SUCH EFFECTS AS DISRUPTIVE OF THEIR NATIONAL UNITY AND ULTIMATELY OF THEIR SECURITY. IN THIS SENSE, INFLATION BECOMES A MATTER OF LIFE AND DEATH FOR THE COUNTRY.

3. THE SECURITY ASPECT HAS BEEN PARTICULARLY STRONGLY EXPRESSED BY SOME MILITARY OFFICERS WHO COMPARE THE COST-OF-LIVING RISE WITH THIS YEAR'S 25 PC GOVERNMENT-WIDE WAGE INCREASE. THEY GENERALLY BELIEVE, HOWEVER, THAT THE REPORTED COST-OF-LIVING RISE (THE CONSUMER INDEX) IS BEING ACTUALLY AND SUBSTANTIALLY EXCEEDED AND THAT THE ENLISTED MAN IS IN FACT FACED WITH A SHARP CUT IN HIS LIVING STANDARD. THE POINT IS ALSO MADE THAT RATIONS HAVE BEEN CUT, AS THE BUDGET INCREASE HAS BEEN MORE THAN ABSORBED BY FOOD PRICE INCREASES.

4. WE HAVE HEARD SIMILAR STORIES ABOUT LOW PAID CIVIL SERVANTS, SUCH AS DRIVERS AND SECRETARIES. THE STORY'S FRUTHER TOLD THAT SOME OFFICIALS ARE SUPPLEMENTING THE SALARIES OF SUCH PEOPLE IN ORDER TO PREVENT THEIR SEEKING ALTERNATIVE, BETTER-PAYING JOBS IN THE PRIVATE SECTOR.

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5. BUSINESSMEN, TOO, COMPLAIN BOTH ABOUT THE INFLATION AND ABOUT ROKG RESPONSES. THEY BELIEVE THAT THE RECENT RISE IN INTEREST RATES WAS AN ERROR, AS IT RAISED THEIR COSTS, AT THE SAME TIME WAGES (WITH ROKG SUPPORT) AND IMPORTED RAW MATERIAL COSTS (ESPECIALLY FROM JAPAN) HAVE JUMPED. A FURTHER SQUEEZE ON ALREADY NARROW EXPORT MARGINS IS PREDICTED, ONE WHICH THEY FEEL CAN ONLY BE SOLVED BY A DEVALUATION SOMETIME IN THE NEXT YEAR OR TWO. MOREOVER, FALLING PROFITS ON OVERSEAS SALES CANNOT BE MADE UP LOCALLY SINCE MOST PRICES FOR DOMESTIC SALES ARE TIGHTLY CONTROLLED.

6. WE HAVE BEEN FOLLOWING PRICES CLOSELY EVER SINCE THE JUMP IN THE MONEY SUPPLY SOME TEN MONTHS AGO. ROKG ECONOMIC OFFICIALS INITIALLY THOUGHT THEY COULD SQUEEZE THE MONEY SUPPLY DOWN FAST ENOUGH TO PREVENT GREAT PRESSURE ON PRICES. HOWEVER, THEY WERE WRONG. MOST OF THE INCREASES OCCURRED INITIALLY IN FOOD ITEMS (UNCONTROLLED) BUT THE ROKG IS NOW FINDING IT ESSENTIAL TO PASS ALONG A WHOLE SERIES OF COST INCREASES BY RAISING THE PRICES OF A GREAT MANY CONTROLLED ITEMS. RISING DEMAND, FUELED BY RISING INCOME, COMPOUNDS THE PROBLEM.

7. ROKG ECONOMIC OFFICIALS HAVE TRIED OTHER MEASURES AS WELL, SUCH AS ADDITIONAL FOOD IMPORTS. HOWEVER, OPPOSITION FROM THE MINISTRY OF AGRICULTURE SEEMS TO HAVE DELAYED IMPORT, AT THE SAME TIME THE MINISTRY KEPT LAND IN RICE WHICH WOULD BE BETTER EMPLOYED GROWING VEGETABLES. THE MINISTRIES OF AGRICULTURE AND COMMERCE SEEM TO HAVE WORKED OUT AN ALLIANCE TO OPPOSE APPROPRIATE ADJUSTMENTS: THEY MAY NOT SUCCEED IN THE LONG RUN, BUT THEIR EFFORTS HAVE DELAYED MEASURES THAT WERE SEEN TO INJURE THEIR CLIENTS. THE BLUE HOUSE STAFF DOES NOT SEEM TO HAVE BEEN EFFECTIVE IN FORCING MORE RAPID ACTION, AS MANY HAD ANTICIPATED. THUS, THE EXPECTATION AMONG ROKG ECONOMISTS IS FOR A BOUT OF INFLATION LASTING THROUGH THE END OF THE YEAR IF NOT INTO EARLY 1979.

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8. COMMENT: MUCH OF THE PUBLIC ANGER ABOUT INFLATION IS PROBABLY MISTAKEN, THOUGH REAL. IT STRETCHES BELIEF TO ARGUE, WITH ANOTHER YEAR OF REAL GROWTH IN THE RANGE OF 12-14 PC, THAT EVERYONE WILL SOMEHOW END UP WORSE OFF. ON THE OTHER HAND, CLEARLY EVERYONE IS NOT GETTING THE BIG WAGE INCREASES. THE LEAST SKILLED AND THOSE EMPLOYED IN SERVICES AND DECLINING INDUSTRIES ARE FALLING BEHIND, SOME IN AN ABSOLUTE SENSE. MANY ARE FACED WITH THE NEED TO FIND A NEW JOB IN ONE OF THE GROWING INDUSTRIAL SECTORS, BUT THE DISTINCTION BETWEEN THE INFLATION AND THEIR ADJUSTMENT PROBLEM IS LOST; INDEED, THE INFLATION MAKES ADJUSTMENT MORE URGENT, BUT ALSO MORE DIFFICULT, AS MORE PEOPLE ARE AFFECTED AT THE SAME TIME. THE CIVIL AND MILITARY SERVICES PRESENT SPECIAL PROBLEMS, SINCE MEMBERS OF NEITHER GROUP FIND IT EASY TO SHIFT THEIR EMPLOYMENT.

9. IN SUM, INFLATION WILL NO DOUBT BE AN ISSUE FOR THE BALANCE OF THIS YEAR. IT HAS ALREADY CREATED EXTREME DISCOMFORT FOR SOME (THE ECONOMIC PLANNING BOARD IS NOW KNOWN AS THE PRICE RAISING BOARD). REPUTATIONS HAVE BEEN HURT; SOME MAY LOSE THEIR JOBS BEFORE IT IS OVER.  
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## Message Attributes

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